

MHLONTLO LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013



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ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

RECEIVED BY: M. NGXOWA (AZA KOPANO INC - EASTERN CAPE)

DATE: 30/08/2013

Signature: NGXOWA



MHLONTLO LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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GENERAL INFORMATION

Members of the Executive Council

Mayor	Hon. T Sabisa
Speaker	N. Mtwazi
Head - Economic Development	Z. Songca
Head - Technical and Infrastructure	X. Mpatane
Head - Corporate Services	CM Kondlo
Head - Budget and Treasurer	M.G Jara
Head - Community services	N. Dywili
Head - SPU	N. Konza
Head - Planning & Development	R.M Giyose
Head - Disaster	E. Pula
Head - Sport	N. Magodla
Chief Whip	X.D Nkompela

Ordinary councillors

M. Ncokothwana
S.N Matanzima
L.L Mkhondweni
N.Qhezu
X.B Ngoma
L. Hlabiso
V. Mnyanda
N. Gcaba
Y.H Guqa
Z. Ngoni
B. Mqovula
NE Sigwili
Z.W. Nondaka
A.M Dawedi
X. Mswelanto
S. Sogxakanxa
M. Soyekwa
L.H. Ludidi
J.M. Jikijela
M. Mfamela
M.S. Mathe
N. Nondlela
N.N Gomo
N.C Ncalo

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N.V. Masangwana
S.T Msongelwa
M.C Socikwa
S. N Songca
S.N Salaze
N. R Matomane
N. P Mkontwana
N. T. Ngquke
M. Macingwane
M. Mabono
S.S Mbangata
N.R Ngewu
Y. Yaso
Z. Nondaka
N. Mdwai

Acting Municipal Manager

S.G. Sotshongaye

Chief Financial Officer

N Ponco

Grading of Local Authority

Grade 3

Auditors

Auditor-General

Bankers

First National Bank

Registered Office:

96 Church Street,
QUMBU
5180

Physical address:

96 Church Street,
QUMBU
5180

Postal address:

PO Box 31
QUMBU
5180

Telephone number:

047 553 7000

Fax number:

047 553 0452

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E-mail address:

info@mhlontlolm.gov.za

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on pages 1 to 39 were approved by the Acting Municipal Manager and Chief Financial Officer on 31 August 2013.

 30/08/2013

ACTING MUNICIPAL MANAGER

(Accounting Officer)

31 August 2013

 30/08/2013

CHIEF FINANCIAL OFFICER

31 August 2013

MAYORS FOREWORD

for the year ended 30 June 2013


During the 2012/13 financial year the municipality was under severe pressure to ensure compliance to various changes in legislation and continue with implementation of Generally Recognized Accounting Practice (GRAP) standards. The municipality was however able to meet the challenges set by a changing legislative and accounting environment.

The district municipality, as part of improving service delivery to the community, implemented proper communication channels through the local municipalities that have the Ward Committee and Community Development Workers systems at their disposal.

Although capital projects were limited to those financed from external grant funding the municipality has successfully implemented the projects identified in the Integrated

Development Plan / Budget for 2012/13 financial year. The municipality will continue in the 2013/14 financial year to implement uncompleted projects for the previous financial year and those projects identified in the IDP / Budget for the current year. Service delivery and the eradication of infrastructure backlogs remain a serious concern to all in local government. All role-players must ensure that they work together to overcome the legacy of the past and ensure that we uplift the living conditions of our people. I hereby wish to thank the members of the Mayoral Committee and Council together with staff for their commitment during the year, ensuring that we meet the set targets for the year.

I thank you.



T SABISA
Mayor and Chairman of the
Executive Committee

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ABBREVIATIONS

COID	Compensation for Occupational Injuries & Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints. The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit. The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

MHLONTLO LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2013

	Note	2013 R	2012 R
ASSETS			
Current Assets		43 345 715	25 577 375
Cash & Cash equivalents	7	1 368 567	801 411
Short Term Investment	7	33 772 345	13 269 151
Receivables from exchange transactions	3	3 362	21 297
Receivables from non-exchange transactions	4 & 6	3 120 967	1 188 985
Prepayments	5.2	-	182 459
VAT Receivable	5.1	5 080 473	10 114 072
Non - current assets		127 244 559	135 454 666
Property, Plant and Equipment	2.1	104 693 251	113 176 739
Heritage	2.1	119 400	-
Intangible Assets	2.5	1 030 807	876 827
Investment Property carried at cost	2.4	21 401 100	21 401 100
TOTAL ASSETS		170 590 273	161 032 041
LIABILITIES			
Current Liabilities		22 865 587	9 158 440
Payables from exchange transactions	10.1	6 022 556	6 182 463
Payables from non exchange transactions	10.2	797 735	746 097
Provisions	9	-	-
Unspent conditional grants and receipts	8	16 044 596	2 229 480
Deferred Income	3.4	700	400
Non- current liabilities		5 031 690	4 212 131
Provisions	4.1	5 031 690	4 212 131
Total Liabilities		27 897 277	13 370 571
Net Assets		142 692 997	147 661 470
NET ASSETS			
Accumulated Surpluses		142 692 997	148 174 619
Reserves		-	-
Total net assets & Liabilities		142 692 997	147 661 470

MHLONTLO LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2013

	Note	2013 R	2012 R
REVENUE			
Revenue From Non- Exchange Transactions			
Property rates	12	7 269 648	6 918 588
Fines		150 880	81 150
Commissions received		47 712	102 122
Licences and permits		1 123 927	1 784 342
Government grants and subsidies	14	134 665 725	126 461 399
Revenue From Exchange Transactions			
Service charges - refuse	13	565 712	552 132
Rental of facilities		63 683	35 319
Gains on Sale of an Asset		-	42 222
Other income	15	2 171 666	1 730 866
Interest Income	20	2 314 276	1 939 677
Total Revenue		148 373 229	139 647 816
EXPENDITURE			
Personnel	17	50 068 503	36 616 425
Remuneration of Councillors	18	13 315 986	11 219 844
Finance costs	21	151 169	36 721
Debtors Allowance/Impairment Loss	19	18 013 034	17 784 278
Depreciation & Amortisation	2	10 843 987	12 875 954
Repairs and maintenance		2 423 128	3 239 945
Interest on Landfill Site		420 877	
Contracted services	23	1 896 100	1 264 764
Operating Lease	27	685 774	678 586
Loss on Sale of an Asset		46 534	-
Other operating grants expenditure	24	20 599 588	7 452 720
General expenses	16	35 390 171	31 315 142
Total expenditure		153 854 851	122 484 379
SURPLUS / (DEFICIT) FOR THE YEAR		-5 481 622	17 163 437

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STATEMENT OF CHANGES TO NET ASSETS
For the year ended 30 June 2013

	Note	(Accumulated Deficit) / Accumulated Surplus	Total
2 012			
Opening balance as previously reported		104 119 841	104 119 841
Correction of Error	29	26 891 340	26 891 340
Balance at 01 July 2011 as restated		131 011 181	131 011 181
Changes in net assets		-	-
Surplus / (Deficit) for the year		17 163 437	17 163 437
Balance at 30 June 2012		148 174 619	148 174 619
2013			
Opening balance as previously reported		148 174 619	148 174 619
Balance at 01 July 2012 as restated			
Changes in net assets		-5 481 622	-5 481 622
Surplus / (Deficit) for the year			
Balance at 30 June 2013		142 692 997	142 692 997

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CASH FLOW STATEMENT

	Note	2013 R	2012 R
CASH FLOWS FROM OPERATING ACTIVITIES			
RECEIPTS			
Sale of goods and services		5 344 679	6 227 999
Interest earned		1 575 833	1 157 557
Grants		116 513 751	120 640 949
Other receipt		5 781 234	3 040 165
PAYMENTS			
Employee costs		-55 110 237	-47 172 865
Suppliers		-32 927 068	-44 020 420
Interest paid		-151 169	-36 721
Net cash flows from operating activities	40	41 027 024	39 836 664
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	2R	-20 113 425	-33 644 928
Proceeds from sale of fixed assets		156 750	1 225 222
Proceeds from sale of investments		-	-
Purchase of investments		-	-
Net cash flows from investing activities		-19 956 675	-32 419 706
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from finance lease liability		-	-
Repayment of finance lease liability		-	-
Net cash flows from financing activities		-	-
Net increase / (decrease) in net cash and cash equivalents		21 070 349	7 416 958
Net cash and cash equivalents at beginning of period		14 070 563	6 653 605
Net cash and cash equivalents at end of period		35 140 912	14 070 563

**MHLONTLO LOCAL MUNICIPALITY
APPENDIX E**

**STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION
as at 30 JUNE 2013**

Description	Original Budget 1	Final Budget 4	Actual Income 5	Variance 7	Reasons for variances
	R	R	R	R	
Financial Performance					
Property Rates	8 327 452	7 024 496	7 230 548	245 152	
Service Charges	541 468	568 758	636 712	3 048	
Investment Revenue	751 080	791 639	2 314 276	1 522 637	The interest on investment was not budgeted for. Only the interest on unpaid debtors was budgeted for.
Transfers Recognised - Operational	122 952 990	116 297 173	109 936 939	-8 301 234	Grants with held due to under Expenditure
Other Own Revenue	3 474 010	3 661 607	3 557 368	-103 739	
Total Revenue (Excluding Capital Transfers & Co	136 047 001	128 343 672	123 700 443	-4 640 229	
Employee Costs	51 680 773	55 526 990	50 036 303	-5 458 487	
Remuneration Of Councilors	12 420 760	13 290 213	13 316 366	25 773	
Impairment Loss		10 284 278	18 013 334	-7 728 756	Under budgeting for Impairment
Depreciation & Amortisation		10 075 954	10 641 704	-565 750	Depreciation on additions was not taken into account when budgeting.
Finance Charges	16 285	81 425	151 169	-69 744	Paid interest that relates to the past two years.
Materials & Bulk Purchases	500 000	526 500	875 741	-353 241	
Other Grant Operating Expenditure	33 652 619	23 006 631	30 595 588	-7 592 957	Payment of projects already committed in the previous year which were accommodated in the last financial year but allocation was reduced by Treasury
Other Expenditures	28 888 282	19 906 882	20 896 922	-8 980 040	Payment of projects already committed in the previous year which were accommodated in the last financial year but allocation was reduced by Treasury
Total Expenditure	127 158 719	132 698 873	152 906 947	-19 867 774	
Surplus/(Deficit)	8 888 282	-4 355 200	-20 805 204	15 227 545	
Transfers Recognised - Capital	34 376 000	34 376 000	24 605 786	9 706 214	
Contributions Recognised - Capital & Contrib	3 436 677	6 731 666			
Surplus/(Deficit) After Capital Transfers & Contrib	46 700 959	36 752 465	-4 193 118	24 933 759	
Share Of Surplus/(Deficit) Of Associate					
Surplus/(Deficit For The Year)	46 700 959	36 752 465	-4 193 118	24 933 759	
Capital Expenditure & Funds Sources					
Capital Expenditure					
Transfers Recognised - Capital	34 376 000	34 376 000	24 605 786	9 706 214	
Internally Generated Funds	3 436 677	6 731 666			
Total Sources Of Capital Funds	37 812 677	41 107 666	24 605 786	9 706 214	
Cash flows					
Net Cash From (Used) Operating	47 480 648	52 592 902	20 913 999	31 679 303	
Net Cash From (Used) Investing	-47 480 647	-52 592 901	156 750	-52 749 651	
Net Cash From (Used) Financing					
Cash/Cash Equivalents At The Year End	1	1	21 070 349	-21 070 348	

DISCLOSURE

The budget was approved on an accrual basis by functional classification. The approved budget covers the period from 1 July 2012 to 30 June 2013.

The budget and the accounting bases are the same. The financial statements are prepared on an accrual basis using a classification on the nature of expenses in the statement of financial performance.

NOTE : THE AMOUNTS INCLUDED IN ACTUALS HAVE BEEN TAKEN FROM THE AFS.

ACCOUNTING POLICIES

1.1 BASIS OF ACCOUNTING / PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. Financial Statements are prepared in accordance with GRAP Standards

These accounting policies are consistent with the previous period.

1.2 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in an appendix to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and the cost of the item can be measured reliably.

Initial measurement

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary

asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

1.3 PROPERTY, PLANT AND EQUIPMENT (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

1.3 PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part

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of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as noncurrent assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight – line method over the estimated useful lives of the assets. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives

	<u>Asset Life</u>		<u>Asset Life</u>
OTHER ASSETS			
BUILDINGS:		EMERGENCY EQUIPMENT:	
Abattoirs	30	Fire	15
Asphalt plant	30	Ambulances	10
Cable stations	30	Fire hoses	5
Caravan parks	20	Emergency lights	5
Cinemas	30		
Compacting stations	30	MOTOR VEHICLES:	
Hostels - Public/Tourist	30	Fire engines	20
Hostels - Workers	30	Buses	15
Housing schemes	30	Motor vehicles	7
Kilns	30	Motor cycles	3
Laboratories	30	Bakkies	7
Markets	30		
Nurseries	30	AIRCRAFT:	15
Office buildings	30		
Old age homes	30	WATERCRAFT:	15
Quarries	30		
Landfill sites	20	PLANT AND EQUIPMENT:	
Training centres	30	Graders	15
Transport facilities	30	Tractors	15
Workshops/depots	30	Mechanical horses	10
		Farm equipment	5
OFFICE EQUIPMENT:		Lawnmowers	4
Computer hardware	5	Compressors	7
Computer software	3	Laboratory equipment	7
Office machines	7	Radio equipment	7
Air conditioners	5	Firearms	7
		Telecommunication equipment	5
FURNITURE AND FITTINGS:		General	5
Chairs	7	Cable cars	7
Tables/desks	7	Irrigation systems	10
Cabinets/cupboards	7	Cremators	15
Miscellaneous	7	Lathes	15
		Milling machines	10
BINS AND CONTAINERS:		Conveyors	15
Household refuse bins	5	Feeders	15
Bulk containers	10	Tipper Truck and other trucks	10
		Pulverising mills	15
		Refuse compactors	10

1.4 FINANCIAL INSTRUMENTS

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.5 INVENTORIES

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition. Subsequently inventories are measured at the lower of cost and net realisable value. Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution. Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs

incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.6 IMPAIRMENT OF CASH-GENERATING ASSETS

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation). Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use. Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.7 ACCUMULATED SURPLUS

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.8 PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation.

The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
 - the amount initially recognised less cumulative amortisation.
- Contingent assets and contingent liabilities are not recognised. Contingencies are only disclosed in the note.

1.9 REVENUE RECOGNITION

1.9.1 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

1.9.2 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Contributed property, plant and equipment is recognised when such items of property, plant

and equipment qualifies for recognition and become available for use by the municipality. Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible Councilors or officials is virtually certain.

1.9.3 Grants, transfer and donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.10 INVESTMENTS

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorization are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

1.11 CONDITIONAL GRANTS & RECEIPTS

Unutilised conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants and subsidies.

1.12 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.13 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 USE OF ESTIMATES

The preparation of annual financial statements in conformity with standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the annual financial statement are disclosed in the relevant section of the annual statements.

1.16 COMMITMENTS

Commitment is expenditure which the municipality is committed in procuring but risk and rewards of ownership have not yet transferred to the municipality and therefore can not be an accrual and or actual expenditure therefore will be disclosed in the notes to Annual Financial Statements

1.17 INVESTMENT PROPERTY

Initial recognition

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a operating lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.

Subsequent measurement

Investment property is measured using the cost model and a condition assessment will be performed at least once a year revaluation will be performed once every five years. Under the cost model, investment property is carried at its depreciated revalued amount less impairments at the reporting date. Any gain or loss arising from the revaluation is included in revaluation reserve.

1.18 INTANGIBLE ASSETS

Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset's given up.

Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Amortization and impairment

Amortization is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight-line method. The annual amortization rates are based on the following estimated average asset lives:

Computer software 5 years

The amortisation period and the amortization method for an intangible asset with a finite useful life, are reviewed at each reporting date and any changes are recognized as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and impairment loss is charged to the Statement of Financial Performance.

1.19 HERITAGE ASSETS

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Heritage assets are recognized as asset when

- It is probable that future economic benefits or service potential that are associated with the asset will flow to the municipality and,
- The cost/ fair value can be measured reliably.

If the heritage asset cannot be reliably measured, relevant and useful information about it, it shall be disclosed in the notes to the financial statements.

Initial measurement

Heritage assets are initially measured at cost (cost model). Cost includes the purchase price and the directly attributable expenditure.

Costs incurred to enhance or restore the heritage asset to preserve its indefinite useful life should be capitalized as part of its cost.

If acquired at no cost, or for a nominal cost, fair value as at the date of acquisition should be used.

Subsequent measurement

Heritage assets are cost less impairment losses

Derecognition

Heritage assets are derecognized on disposal or when no future economic benefits or service potential are expected from its use or disposal

1.20 RELATED PARTIES

Related parties requires the disclosure of the existence of related party relationships where control exists as well as the disclosure of information about transactions between the municipality and related parties. In the Annual Financial Statements it is disclosed in the notes to financial statements whether related parties exist or not

1.21 IMPAIRMENT OF NON-CASH GENERATING ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable

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service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.22 ACCOUNTING STANDARDS

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:	Description	Effective Date

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Standard		
GRAP 6 (Revised – Nov 2010)	Consolidated and Separate Financial Statements <p>The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity.</p> <p>No significant impact is expected as the Municipality does not have any entities at this stage to be consolidated.</p>	Unknown
GRAP 7 (Revised – Mar 2012)	Investments in Associate <p>This Standard prescribes the accounting treatment for investments in joint ventures where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other form of interest in the net assets.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions.</p>	1 April 2013
GRAP 8 (Revised – Nov 2010)	Interest in Joint Ventures <p>The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities.</p> <p>No significant impact is expected as the Municipality is not involved in any joint ventures.</p>	Unknown
GRAP 18 (Original – Feb 2011)	Segment Reporting <p>The objective of this Standard is to establish principles for reporting financial information by segments.</p> <p>Information to a large extent is already included in the appendices to the annual financial statements which do not form part of the audited financial statements.</p>	Unknown
GRAP 20	Related Parties <p>This Standards requires that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding</p>	Unknown

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	balances with such parties.	
GRAP 105 (Original – Nov 2010)	<p>Transfer of Functions Between Entities Under Common Control</p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions.</p>	Unknown
GRAP 106 (Original – Nov 2010)	<p>Transfer of Functions Between Entities Not Under Common Control</p> <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions.</p>	Unknown
GRAP 107 (Original – Nov 2010)	<p>Mergers</p> <p>The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions.</p>	Unknown
IGRAP 12	<p>Jointly Controlled Entities non-monetary contributions</p> <p>The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venturer to a Jointly Controlled Entity (JCE).</p> <p>No significant impact is expected as the Municipality does not have any JCE's at this stage.</p>	Unknown

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

1.23. LEASES

MUNICIPALITY AS A LESSOR

Operating leases are those leases that do not fall within the scope of the above definition of the finance lease. Rental income from the operating leases is recognized on a straight-line basis over the term of the relevant lease.

Rental income is disclosed on the face of the statement of a financial performance and disclosed as a disclosure note.

1.24 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in an appendix to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.25 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rands

1.26 GOING CONCERN

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
2.5 INTANGIBLE ASSETS		
Opening Balance	919 212	177 199
Current year - Addition	440 780	342 869
Accumulated Amortisation	-84 332	-
Correction of Error (See Note 25)	-	161 615
Amortisation	-244 852	-156 786
Replacement Cost	-	351 930
Closing Balance	<u>1 030 807</u>	<u>876 827</u>
Intangible Assets are stated at cost and where there is no cost it will be reflected at replacement values		
The amortisation expense has been included in the line item "Depreciation & Amortisation" in the Statement of Financial Performance		
Amortisation is charged on a straight-line basis over the Intangible Assets useful lives.		
Computer Software are issued under licence and are restricted to all conditions under which each license are issued.		
All of the municipality's Intangible Assets are held under freehold and no Intangible Assets had been pledged as security for any liabilities of the municipality		
3 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Accrued interest income	3 362	21 297
	<u>3 362</u>	<u>21 297</u>
This relates to interest recieved after year end but relates to year end		
4 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Payroll debtors	1 270 130	1 203 112
Impairment Loss for payroll debtors	-468 219	-468 216
Debtors suspense	53 996	53 996
Impairment Loss for debtors	-53 996	-53 996
	<u>801 911</u>	<u>734 895</u>
The payroll debtors that were unknown in the prior year, were written off by the council.		
The debtors suspense have be impaired as this account remains domant in the current year and will be taken to council for write off in 2012/13 financial year.		
5.1 VAT RECEIVABLE		
VAT RECEIVABLE	5 080 473	10 459 573
Impairment of VAT	-	-345 501
	<u>5 080 473</u>	<u>10 114 072</u>
Vat receivable balance includes the monies due from SARS for the vat periods 2012 and 2013. The portion of the amounts receivable have been received from SARS in the 2012-13 financial year.		
An amount of R11 733 748,62 has been received in the current year and there for recoverability of the amount disclosed is not remote		
5.2 PREPAYMENT		
Amounts paid to Councillors & Mayor above upper Limits	-	182 459
	<u>-</u>	<u>182 459</u>
municipality has started deducting from their salaries in 2012. Currently the amounts have been recovered from Councillor		

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Notes to Annual Financial Statements (Cont)
For the year ended 30 June 2013

2.1 PROPERTY PLANT AND EQUIPMENT
2012/2013 YEAR

	Land	Buildings	Infrastructure	Community	Heritage	Other Assets	Total
Reconciliation of Carrying Value							
as at 1 July 2012	5 750 036	9 072 626	47 984 920	5 520 036	119 400	12 607 689	81 054 708
Cost/Revaluation	5 750 036	17 440 530	94 774 201	9 879 350	119 400	17 074 662	145 038 179
Correction of error	-	-26 123	169 522	1 284 317	-	-1 427 716	-
Change in accounting policy	-	-	-	-	-	-	-
Accumulated depreciation and impairment loss	-	-8 341 780	-46 958 803	-5 843 631	-	-3 039 257	-63 983 471
Acquisitions /Additions	-	59 998	17 422 761	1 897 648	-	733 019	20 113 425
Landfill Site	-	-	4 242 061	-	-	-	4 242 061
Capital under Construction	-	-	-	-	-	-	-
Depreciation Landfill	-	-	-202 283	-	-	-	-202 283
Depreciation	-	-618 536	-7 834 821	-489 278	-	-1 454 216	-10 396 852
Carrying value of disposals	-	-	-	-	-	-	-
Cost/Revaluation	-	-	-	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-	-
Disposal*	-	-	-	-	-	161 337	161 337
as at 30 June 2013	5 750 036	9 132 624	69 052 199	7 417 684	119 400	13 340 708	104 693 251
Cost/Revaluation	5 750 036	17 474 405	116 609 545	13 061 314	119 400	16 370 955	160 274 255
Accumulated depreciation and impairment loss	-	-8 341 780	-47 556 346	-5 643 631	-	-3 039 257	-64 581 014

2011/2012 YEAR

	Land	Buildings	Infrastructure	Community	Heritage	Other Assets	Total
Reconciliation of Carrying Value							
as at 1 July 2011	5 750 036	11 531 375	47 576 334	7 099 301	-	14 028 534	85 985 580
Cost/Revaluation	5 750 036	17 440 530	94 774 201	9 879 350	-	17 074 662	144 918 779
Correction of error	-	-26 123	169 522	1 284 317	119 400	-1 427 716	119 400
Change in accounting policy	-	-	-	-	-	-	-
Accumulated depreciation and impairment loss	-	-5 883 032	-47 367 389	-4 064 366	-	-1 618 412	-58 933 198
Acquisitions	-	354 396	22 831 523	-	-	10 459 009	33 644 928
Landfill Site	-	-	2 857 403	-	-	-	2 857 403
Capital under Construction	-	-	37 646	-	-	-	37 646
Depreciation	-	-741 055	-8 342 831	-406 903	-	-2 996 708	-12 487 497
Carrying value of disposals	-	-	-	-	-	-	-
Cost/Revaluation	-	-	-	-	-	-1 183 000	-1 183 000
Accumulated depreciation and impairment losses	-	-	-	-	-	-1 183 000	-1 183 000
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-	-
Disposal*	-	-	-	-	-	-	-
as at 30 June 2012	5 750 036	11 144 716	64 960 075	6 692 398	119 400	20 307 836	108 855 060
Cost/Revaluation	5 750 036	17 768 803	120 670 295	11 163 867	119 400	24 922 946	160 274 756
Accumulated depreciation and impairment loss	-	-6 624 087	-55 710 220	-4 471 269	-	-4 615 119	-71 420 596

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

2013
R

2012
R

6.1 CONSUMER DEBTORS

	<u>Gross balance</u>	<u>Impairment</u>	<u>Net balances</u>
As at 30 June 2013			
Service debtors			
Rates	10 788 003	-9 140 419	1 647 584
Refuse	3 542 159	-2 965 332	576 828
Old balances	5 479 712	-5 385 068	94 645
	<u>19 809 875</u>	<u>-17 490 818</u>	<u>2 319 056</u>

As at 30 June 2012			
Service debtors			
Rates	9 064 573	-8 870 280	194 293
Refuse	2 981 116	-2 813 365	167 751
Old balances	5 324 965	-5 232 920	92 045
	<u>17 370 655</u>	<u>(16 916 565)</u>	<u>454 090</u>

Rates: Ageing

Current	-448 527	-
0 - 30 days	119 413	-20 037
31 - 60 days	118 118	139 770
61 - 90 days	117 556	139 079
91 - +120 days	10 308 919	8 805 761
Total	<u>10 215 478</u>	<u>9 064 573</u>

Refuse: Ageing

Current	6 191	60 373
0 - 30 days	56 427	51 810
31 - 60 days	55 861	51 733
61 - 90 days	55 312	62 523
91 - +120 days	3 315 143	2 754 677
Total	<u>3 488 935</u>	<u>2 981 116</u>

Old balances : Ageing

Current	105 142	-
0 - 30 days	21 585	22 427
31 - 60 days	21 714	22 427
61 - 90 days	21 624	22 344
91 -120 days	5 393 224	5 257 767
Total	<u>5 563 288</u>	<u>5 324 965</u>

Reconciliation for Impairment for bad debts

Allowance at beginning of the year	-17 490 818	-16 916 565
Contribution	-6 432 552	-6 432 552
Recoveries	-11 058 266	-10 484 013
	-	-

See note 38 for credit risk exposure

MIHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

8(Cont) Basis of the Allowance debts

The Impairment of Debtors & Other Trade Receivables exists predominantly due to the possibility that these debts will not be recovered. Receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of a Rates Assessment Debtor and Other Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Debtors Impairment.

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	2 132	50
Main Account Bank balances	1 366 435	801 361
Short-term deposits	33 772 345	13 269 151
	<u>35 140 912</u>	<u>14 070 563</u>

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2013	30 June 2012	30 June 2013	30 June 2011
FNB - Main account - 62023382526	1 363 965	801 361	1 366 435	159 357
FNB - Equitable 1 Day call deposit - 62027945809	15 129 368	8 643 877	15 129 368	61 986
FNB - MIG call deposit - 74027948006	-	-	-	-
FNB - Gqunu Lots call deposit - 62020395390	10 628 342	386 892	10 628 342	-5 209
FNB - IDP call deposit - 62075570137	762 801	763 565	762 801	764 285
FNB - INEP call deposit - 74231136026	4 698 886	448 919	4 698 886	1 835
FNB - LED call deposit - 62075571713	390 627	880 222	390 628	2 423 334
FNB - MSIG call deposit - 62080641416	369 037	10 000	369 037	2 652 787
FNB - FMG call deposit - 62280641244	442 150	709 056	442 150	10 000
FNB - Revolving call deposit - 61395068117	441 689	1 087 773	441 689	194 115
FNB - Bulk housing combined call deposit - 62280645345	898 446	357 637	898 446	36 995
FNB Trade & Investments - 74366814934	-	-	10 000	357 637
Total	<u>35 126 311</u>	<u>14 070 302</u>	<u>35 138 780</u>	<u>6 653 452</u>

In line with GRAP 2 paragraph 44, the purposes of the Statement of Financial Position and the Cash Flow Statement, Bank, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

In line with GRAP 12 paragraph 45(b), the municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities & there are no restrictions that have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
8 UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
Unspent conditional grants and receipts comprises of:		
MIG	9 706 214	-
Gqunu lots	1 111 943	1 111 943
Qumbu Pilot Housing	62 525	356 807
LED	115 000	220 019
Qumbu Bulk Housing	-	-
IDP	-	-
30 Tsolo pilot housing	-	-
MSP	-	-
Retrenchment	-	-
FMG	-	47
INEP electrification	5 048 913	489 782
	16 044 596	2 178 600
Movement during the year		
Balance at the beginning of the year	1 890 770	8 979 441
Additions during the year	-	-
Income recognition during the year	-7 088 671	-7 088 671
	-5 197 901	1 890 770

The nature and extent of government grants recognised in the annual financial statements are an indication of other forms of government assistance from which the municipality has directly benefited.

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

	2013 R	2012 R Restated
9 CURRENT PROVISIONS		
The provision amount includes the following:		
Provision for Land Fill Site		609 461
Correction of an error		-609 461
see Note 41 for detail reconciliation	-	-
This in line with GRAP 17.64	-	-

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

		2013 R	2012 R
10.1	PAYABLE FROM EXCHANGE TRANSACTIONS		
	Trade payables	1 998 411	3 052 829
	Creditors Accruals	4 024 145	3 129 634
		<u>6 022 556</u>	<u>6 182 463</u>
10.2	PAYABLE FROM NON EXCHANGE TRANSACTIONS		
	Payments received in advance - Consumer & Refuse	764 457	671 635
	Payroll creditors	32 623	73 758
	Sundry suppliers	655	655
		<u>797 735</u>	<u>746 097</u>
	Payments received in advance are negative debtors which have been reclassified as liability		
11	REVENUE		
	Property rates	7 269 648	6 918 588
	Service charges	565 712	552 132
	Fines	150 880	81 150
	Licences & permits	1 123 927	1 784 342
	Government grants & subsidies	134 665 725	126 855 148
		<u>143 775 892</u>	<u>135 191 359</u>
	The amount included in revenue arising from exchanges of goods or services are as follows:		
	Service charges	565 712	552 132
	Licences and permits	1 123 927	1 784 342
		<u>1 689 639</u>	<u>2 336 473</u>
	The amount included in revenue arising from non-exchanges of goods or services are as follows:		
	<i>Taxation revenue</i>		
	Property rates	7 269 648	6 918 588
	Fines	150 880	81 150
	<i>Transfer revenue</i>		
	Grants	134 665 725	126 855 148
		<u>142 086 253</u>	<u>133 854 886</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
12 PROPERTY RATES		
<u>Rates received</u>		
Rates	7 269 648	6 918 588
Total assessment rates	7 269 648	6 918 588

Valuations on land and buildings are performed every four years.

The last valuation came into effect on 01 July 2007.

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Champion Valuation Consortium is currently doing a revised valuation which will come to effect on 1 July 2013

	Rate 2013	Rate 2012		
Residential properties	0.006	0.006	655 226	1 206 203
Government properties	0.026	0.024	6 549 730	5 254 640
Business properties	0.013	0.012	2 490 234	1 590 166
Less: Income forgone			-2 425 542	-1 132 421
			7 269 648	6 918 588

13 SERVICE CHARGES

Business	107 544	123 700
Household	412 975	386 474
Government	45 193	41 958
Refuse removal	565 712	552 132

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
14 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	95 773 000	87 213 000
ELECTRIFICATION PROGRAM	10 440 869	3 795 603
HR MANAGEMENT & DEVELOPMENT	-	-
Malakhiwe Bakery Project	-	216 533
MSIG Grant	800 000	790 000
OR Tambo contribution	-	-
Planning & survey grant	-	-
Training - LGSETA	152 123	274 416
Sinakho Coffin Manufacturers Project	-	374 428
EPWP - Casual workers	1 058 000	961 000
IDP	-	-
Municipal Finance Managent Grant	1 500 047	1 898 902
MIG Grant	24 669 786	28 287 120
Housing project	-	359 930
Grant Prov - LED & Assistance	271 900	2 684 217
Municipal Support Programme - Various	-	-
Total government grants and subsidies	134 665 725	126 855 148

14.1 Equitable share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of which is funded from the grant.

7 979	7 825
-------	-------

14.2 MIG Grant

Balance unspent at the beginning of the year
Current year receipts
Conditions met - transferred to revenue

-	-
34 376 000	28 338 000
-24 669 786	-28 338 000
9 706 214	-

This grant is only for expenses towards the construction of roads. Not All conditions have been met but funds have been committed for 2013/14 financial year. Correction of error in prior year balance

14.3 Gqunu Lots

Balance unspent at the beginning of the year
Current year receipts
Conditions met - transferred to revenue

1 111 943	1 111 943
-	-
-	-
1 111 943	1 111 943

This is a grant that is actually for community projects, all its expenditure depends on their activities which are also in phases and only the tractor that has been bought in this financial year. There also commitments towards this vote for the purchase of the plot.

14.4 Qumbu Pilot Housing

Balance unspent at the beginning of the year
Current year receipts
Conditions met - transferred to revenue
Conditions still to be met - remain liabilities (see note 8).

62 525	422 455
-	-
-	-359 930
62 525	62 525

The project started in December and some other projects could not continue due to price increases within the suppliers. Qumbu and disaster houses are spent in this grant.

14.5 LED

Balance unspent at the beginning of the year
Current year receipts
Conditions met - transferred to revenue
Conditions still to be met - remain liabilities (see note 8).

175 591	3 334 088
202 990	116 677
-263 581	-3 275 174
115 000	175 591

Some projects were started at the end of the financial year since the funding was received late and in trenches. On the Tsitsa project it has got phases that are followed and only one phase has started although funds were already received the other phases will commence after the finalisation of this phase.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
14 GOVERNMENT GRANTS AND SUBSIDIES (continued)		
14.6 IDP		
Balance unspent at the beginning of the year	-	-
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
	<u>-</u>	<u>-</u>
All the conditions have been met and all funds have been spent.		
14.7 MSP		
Balance unspent at the beginning of the year	-	-
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
	<u>-</u>	<u>-</u>
14.8 Retrenchment		
Balance unspent at the beginning of the year	-	-
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
	<u>-</u>	<u>-</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
14 GOVERNMENT GRANTS AND SUBSIDIES (continued)		
14.09 FMG		
Balance unspent at the beginning of the year	47	448 949
Current year receipts	1 500 000	1 450 000
Conditions met - transferred to revenue	-1 500 047	-1 898 902
Conditions still to be met - remain liabilities (see note 8).	<u>-</u>	<u>47</u>

The funds unspent in this grant already committed for AFS system as well as financial system which were paid in July. The financial system is paid at the beginning of the financial year.

14.10 MSIG		
Balance unspent at the beginning of the year	-	-
Current year receipts	800 000	790 000
Conditions met - transferred to revenue	-800 000	-790 000
	<u>-</u>	<u>-</u>

All the conditions have been met and all funds have been spent, overspending has been financed through equitable share.

14.11 INEP Electrification		
Balance unspent at the beginning of the year	489 782	3 285 385
Current year receipts	15 000 000	1 000 000
Conditions met - transferred to revenue	-10 440 870	-3 795 603
Conditions still to be met - remain liabilities (see note 8).	<u>5 048 913</u>	<u>489 782</u>

There were delays on the project due to availability of transformers as well late connections by Eskom.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
15 OTHER INCOME		
ADVERTISING BILL BOARDS	34 355	32 821
PLAN FEES	36 370	10 057
OVERDEPOSIT/BANKING	364	25 209
SUNDRY INCOME	400	20
INDEMNITY DEPOSIT FEE	-	2 200
CLEARANCE CERTIFICATE	983	600
CEMETERY FEE - BURIALS	13 402	2 101
LICENCE FEES - MOTOR VEH RCERT	731 363	457 127
POUND FEES	492 138	402 776
POUND SALES	706 492	622 575
TENDER FEES	131 667	118 700
SALE OF WOOD	395	480
BUSINESS LICENCE	13 749	56 200
LAND SALES	9 989	-
	<u>2 171 666</u>	<u>1 730 866</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
16 GENERAL EXPENSES		
ACCOUNTING FEES	436 568	1 503 667
ADVERTISING FEES	543 502	323 248
AUDITORS REMUNERATION	2 339 404	1 955 125
BANK CHARGES	275 434	251 962
CLEANING	110 315	619 078
CONSULTING AND PROFESSIONAL FEES	5 147 567	3 261 772
CONSUMABLES	769 426	194 966
ENTERTAINMENT	206 500	229 103
ANIMAL FEED	28 441	47 628
HIRING CHARGES	607 168	447 406
INSURANCE - GENERAL	1 843 602	1 341 292
COMMUNITY DEVELOPMENT AND TRAINING	445 278	207 234
CONFERENCES AND SEMINARS	956 816	385 226
SKILL DEVELOPMENT PLAN	54 227	283 953
MEDICAL EXPENSES	129 890	37 388
MOTOR VEHICLE EXPENSES	230 667	167 311
FUEL & OIL	1 508 204	2 039 013
POSTAGE AND COURIER	1 874	2 809
PRINTING AND STATIONERY	414 199	410 444
PROMOTIONS	648 847	838 738
PROTECTIVE CLOTHING	120 707	236 564
CRIME PREVENTION	118 156	122 752
DISASTER COSTS	71 610	116 068
SUBSCRIPTIONS AND MEMBERSHIP FEES	-	1 094 318
TELEPHONE AND FAX	2 719 870	2 999 393
TRAINING	2 107 174	1 653 100
ASSETS EXPENSED	737 366	479 716
ELECTRICITY PURCHASE	665 670	750 852
SPECIAL PROJECTS	2 983 131	5 893 894
SURVEY & PLANNING	3 240 001	283 815
PUBLIC PARTICIPATION	160 615	564 936
WARD COMMITTEE STIPEND	3 045 320	1 826 943
UNDERDEPOSIT BANKING	574	23 951
POUND CLAIMS	43 705	48 479
IDP EXPENSES	680 602	550 427.11
WASTE MANAGEMENT	409 709	-
OTHER EXPENSES	29 472	122 569
CONTRIBUTION FOR LEGAL FEES	790 000	-
ASSET VALUATION	768 562	-
	35 390 171	31 315 142

MHLCNTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
17 EMPLOYEE RELATED COSTS		
Basic	24 082 063	18 667 860
Bonus	1 424 523	1 062 801
Medical aid - company contributions	2 784 115	2 308 181
UIF	287 953	153 370
SDL	400 781	261 419
Other payroll levies	11 287	5 691
Contribution to leave pay provision charge	447 295	513 481
Post-employment benefits - Pension-Defined contribution plan	3 852 248	2 467 646
Travel, motor car, accommodation, subsistence and other allowances	5 065 713	2 566 815
Overtime payments	1 543 830	819 975
WCA	1 441 278	1 723.92
Contribution Provision for Bonus	70 834	202 375
Casual Workers	1 400	170 942
Acting allowances	742 662	569 053
Housing benefits and allowances	1 736 144	1 303 751
Other allowances	944 480	626 841
Long term leaves contribution	419 889	17 028
Leave encashment	422 929	-
Nightshift pay	138 120	5 319
Employee related expenses	15 487	-
Back Pay	217 480	-
Traditional Leaders Stipend	-	14 509
Total employee related costs	46 050 511	31 933 781
Remuneration of the Municipal Manager - M Sondaba		
Annual remuneration	-	58 344
Car allowance	-	2 097
Contribution to UIF, Medical and Pension Funds	-	17 093
Subsistence	-	2 400
Public Office Allowance & Back Pay	-	-
Accrued Salary	-	-
Cell Phone	-	-
	-	79 933
Resigned on the 31 July 2011		
Remuneration of the Municipal Manager - YN Ndima		
Annual remuneration	569 202	370 533
Car allowance	142 301	62 633
Contribution to UIF, Medical and Pension Funds	143 400	62 924
Subsistence	-	-
Public Office Allowance & Back Pay	-	9 331
Accrued Salary	-	11 243
Cell Phone	26 568	17 712
	881 471	594 375
Remuneration of the Chief Finance Officer - N Ponco		
Annual remuneration	475 795	465 120
Car allowance	118 949	116 280
Contribution to UIF, Medical and Pension Funds	129 832	124 209
Housing	33 577	33 576
Subsistence & Back Pay	1 399	15 397
Accrued Salary	7 515	12 485
Cell Phone	33 600	33 600
	800 667	800 667
Remuneration of the Strategic Manager - SG Sotshangaye		
Annual remuneration	623 239	537 324
Car allowance	44 043	132 129
Contribution to UIF, Medical and Pension Funds	35 277	38 014
Housing	10 000	30 000
Accrued Salary	7 611	11 209
Subsistence & Back Pay	14 350	51 991
	734 520	800 667
Not paid for 1 Month after expiry of contract		
Remuneration of the Community Manager - YM Yilo		
Annual remuneration	475 797	465 120
Car allowance	118 949	115 280
Contribution to UIF, Medical and Pension Funds	129 574	120 656
Housing	33 576	33 576
Subsistence & Back Pay	-	15 397
Accrued Salary	9 171	18 038
Cellphone	33 600	33 600
	800 667	800 667
Remuneration of the Managers - Corporate Services BK Socikwa		
Annual remuneration	-	465 120
Car allowance	-	115 280
Contribution to UIF, Medical and Pension Funds	-	125 125
Housing	-	33 576
Subsistence & Back Pay	-	15 397
Accrued Salary	-	11 569
Cellphone	-	33 600
	0	800 667
Remuneration of the Technical Manager - TP Mase		
Annual remuneration	549 656	537 324
Car allowance	132 141	132 135
Contribution to UIF, Medical and Pension Funds	44 400	42 037
Housing	30 000	30 000
Accrued Salary	8 326	11 214
Subsistence & Back Pay	36 144	47 957
	800 667	800 667
TOTAL SALARIES	50 068 503	36 022 050

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
18 REMUNERATION OF COUNCILLORS		
Mayor	949 092	582 758
Councillors	12 366 894	10 637 035
Total councillors' remuneration	13 315 986	11 219 844
Mayors Allowance	726 324	582 758
Speakers Allowance	536 304	466 204
Chief Whip	504 038	437 068
Councillors Allowance	11 360 200	9 677 470
Traditional Leaders Stipend	120 000	-
Contributions to Medical	69 120	56 344
	13 315 986	11 219 844
19 DEBT IMPAIRMENT		
Payroll Debtors	468 219	-
Consumer Debtors	17 490 818	16 916 565
Debtors Suspense	53 996	53 996
	18 013 034	16 970 561
The reduction in debt impairment is due to a debtors reconciliation exercise that led to a reduction in overall debtors balances, municipal properties billings were reversed, government accounts were corrected. This led to a recovery of previous years overprovisions.		
20 INVESTMENT REVENUE		
<i>Interest revenue</i>		
Interest from investments	1 575 833	1 173 991
Interest charged on trade and other receivables	738 443	765 686
	2 314 276	1 939 677
The amount included in investment revenue arising from non-exchange transactions to R 2 314 276		
21 FINANCE COSTS		
Interest	151 169	36 721
See note 29.2 from further disclosure	151 169	36 721
22 AUDITORS' REMUNERATION		
Fees	2 339 404	1 955 125
	2 339 404	1 955 125
23 CONTRACTED SERVICES		
Security services	1 896 100	1 264 764
	1 896 100	1 264 764

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
24 OTHER OPERATING GRANTS EXPENDITURE		
Electrification program	12 395 757	3 271 340
EPWP Program	1 156 577	976 874
MSIG - Training ward committees	-	739 972
Indigent subsidy	5 916 002	1 772 474
Management Support Program	-	-
FMG Interns	1 131 253	44 650
Lots - farms	-	-
Housing projects	-	597 410
IDP expense	-	-
	20 599 588	7 452 720

25 CHANGE IN ACCOUNTING POLICY

During the year the municipality changed its accounting policy informed by relief provided by Directive 4 the effect of this change resulted to the following:

Assets

Previously reported

Property plant and Equipment
Investment Property
Accumulated Depreciation
Intangible Assets

Currently reported in prior year

Property plant and Equipment
Investment Property
Accumulated Depreciation
Intangible Assets

Expense

Previously reported

Depreciation

Currently reported in prior year

Depreciation
Amortisation - Intangible

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
25 COMMITMENTS		
Authorised capital expenditure		
Infrastructure	5 755 338	6 048 537
Community	5 244 430	20 549 174
Other	2 062 475	2 841 933
	<u>13 062 313</u>	<u>29 439 644</u>
Financed by		
Government Grants	10 999 838	26 597 711
Own Resources	2 062 475	2 841 933
	<u>13 062 313</u>	<u>29 439 644</u>

27 Operating Lease

This committed expenditure relates to capital and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year

- in second to fifth year inclusive

685 774	685 774
<u>685 774</u>	<u>1 371 548</u>
<u>1 371 518</u>	<u>2 057 322</u>

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable.

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

23 CONTINGENCIES

Bank Guarantees

R135 000

OTHER CASES

TDH Tsole Junction (PTY) LTD Vs Mhlontlo Municipality (case no: 463/2011)

This is a civil claim for damages against the Municipality in the Eastern Cape High Court Mthatha for an amount R48 340 059.00.

Legal Opinion: Case will drag for a long time but, The municipality is unlikely to pay- No contingent liability.

Mzimkhulu Jeremiah Jikijela Vs The Honourable Speaker Mhlontlo Municipality (case 1451/2012)

This matter started in July 2012, Mr Jikijela launched an urgent application against the Municipality seeking an order from his resignation from office.

This case is still pending, the applicant has since appealed against the judgment we obtained, which is in favor of the municipality. The application for leave to appeal has been granted to the full bench, this matter is likely to be finalized next year. We have submitted our statement of the account but payment has not been forthcoming, which is still outstanding.

Legal Opinion: Case will drag for a long time but, The municipality is unlikely to pay- No Contingent liability.

29 CORRECTION OF PRIOR PERIOD ERRORS

29.1 Corrections were made and appropriated to the Accumulated Surplus Account during the financial years ended 2010/11

	Restated	Previously Reported	Currently
Statement of Financial Position			
Investment Property	21 401 100	-	-
Property Plant & Equipment	8 584 879	-	-
Correction on Billing of Debtors	175 358		
Correction of taken balance on Inventory	284 021		
Correction of Provision for Land Fill Site	-		
Increase in Accumulated surplus/Assets/Liabilities	<u>30 445 358</u>		<u>2 080 597</u>

Details of the Error

Investment Property

21 401 100

This relates to land which the municipality has not determine how it will utilised it and has been classified as Investment Property, this correction was in line with Full compliance with GRAP

Property Plant & Equipment

Computer Equipment
Motor Vehicle
Plant & Equipment
Intangible Assets
Other Assets
Furniture & Fitting

Restated	Previously Reported
334 146	
2 003 422	
5 368 913	
351 930	
404 683	
121 584	
<u>8 584 879</u>	

Assets which were previously not included

44

29.2 Changes in accounting policies and prior period errors

* During the 2012/13 financial period GRAP 103 on *Heritage assets* became effective and the standard is being applied retrospectively by the municipality. During the initial implementation of GRAP 17 regarding application and review of residual values, review of useful lives and assessment of assets for impairment were not made. During the initial implementation of GRAP 102, a complete review of intangible assets was made during the current financial period and the assets were recognised as required by GRAP 102.

29.3

1407

44

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

	2013 R	2012 R
30.1 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED		
Unauthorised expenditure		
Reconciliation of unauthorised expenditure		
Opening balance	16 618 555	4 753 034
Unauthorised expenditure current year	19 867 774	16 618 555
Approved by Council or condoned	-	-4 753 034
Transfer to receivables for recovery		
Unauthorised expenditure awaiting authorisation	<u>38 110 305</u>	<u>16 618 555</u>

Incident	Disciplinary Steps / Criminal Proceedings
This was due to variation orders, which was due to change in scope of work, as well as under budgeting of provision, as well as legal expenses	Recoverability of all unauthorised expenditure will be evaluated by council in terms of section 32 of MFMA. No Steps have been taken at this stage to recover any monies

30.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance -	36 721	83 154
Fruitless and wasteful expenditure current year	151 169	36 721
Condoned or written off by Council	-	-83 154
To be recovered – contingent asset	-	-
Fruitless and wasteful expenditure awaiting condonement	<u>187 890</u>	<u>36 721</u>

Incident	Disciplinary Steps / Criminal Proceedings
Fruitless and wasteful expenditure is as result of overdue accounts	Recoverability of all fruitless and wasteful expenditure will be evaluated by council in terms of section 32 of MFMA. No Steps have been taken at this stage to recover any monies

These costs were due to interest on late payment of suppliers

30.3 Irregular expenditure

Reconciliation of irregular expenditure

Opening balance	10 721 417	12 295 158
Irregular expenditure current year	1 623 976	11 559 082
Condoned or written off by Council	-	-13 132 823
Transfer to receivables for recovery – not condoned	-	-
Irregular expenditure awaiting condonement	<u>12 345 393</u>	<u>10 721 417</u>

Incident	Disciplinary Steps / Criminal Proceedings
Non compliance with Supply management principles	Recoverability of all irregular expenditure will be evaluated by council in terms of section 32 of MFMA. No Steps have been taken at this stage to recover any monies

ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

31

Contributions to organised local government

Opening balance	-	-
Council subscriptions	-	-
Amount paid - current	-	-
Amount paid - previous years	-	-
Balance unpaid (included in payables)	<u>-</u>	<u>-</u>

32

Audit fees

Opening balance	-	-
Current year audit fee	2 339 404	1 955 125
Amount paid - current year	-2 339 404	-1 955 125
Amount paid - previous years	-	-
Balance unpaid (included in payables)	<u>-</u>	<u>-</u>

ated

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

						2013	2012
						R	R
33	ARREAR DEBTS FOR COUNCILLORS						
		Current	30 Days	60 Days	90 Days	120 Days	
	Councillor T Msongelwa	41	41	40	40	2 569	2 170
	Councillor XB Ngoma	126	118	118	118	12 522	18 423
	Councillor Z Songca	5	5	5	5	1 174	1 136
	Councillor A Dawedi					4 046	4 443
						20 311	26 172

Arrear Rates and Services charges owned by councillors outstanding for than 90 days
Subsequent to year end, an amount of R2000 was paid by following Cllr XB Ngoma

		R	R
34	DEFERRED INCOME		
	Unknown Deposits	700	400
		700	400

Municipality is embarking on ways to identify source of revenue
Revenue will be recognised revenue will when revenue when source is known

35 GOING CONCERN

The municipality has had a good history of making surplus in the past financial years.
There is also no evidence that the municipality will be put under administration, as no
there is an indication of discontinuance of National Treasury in giving equitable share to
Mhlontlo Municipality.

36 EVENTS AFTER THE REPORTING DATE

All events were tested and there were no adjustable events after balance sheet date

37 RELATED PARTY DISCLOSE

The related parties are councillors and section 57 managers

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

38 Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The municipality only deposits cash with major banks with high quality credit. Trade receivables comprise a widespread service beneficiaries base within Municipal area. Management evaluates credit risk relating service beneficiaries on an Financial assets exposed to credit risk at year end were as follows:

	2013	2012
	R	R
Main Account Bank balances FNB	1 368 567	801 411
Short-term deposits FNB	33 772 345	13 269 101
Trade & Other Receivables	2 319 056	454 090
	<u>37 459 969</u>	<u>14 524 602</u>

39 Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments.

Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:

	2013	2012
	R	R
Cash on hand balance	1 368 567	801 411
Short term investment	33 772 345	13 269 101
	<u>35 140 912</u>	<u>14 070 512</u>

40 Reconciliation of non cash items from operating activities to surplus/(deficit)

	2013	2012
	R	R
Surplus for the year	-5 481 622	17 557 187
Depreciation & Amortisation	10 843 987	12 875 954
Increase in impairment of debtors	18 013 034	17 784 278
Increase in payables	-10 816 317	-10 816 317
Recoveries	-	-
Other non cash items	-5 992 820	-5 992 820
Increase in provisions relating to employee costs	2 209 847	2 209 847
(Gains)/losses on sale of property, plant and equipment	-	-42 222
Interest Expense	36 721	36 721
Interest Income	-1 939 677	-1 939 677
Decrease in receivables	7 946 006	7 946 006
	<u>14 819 159</u>	<u>39 618 957</u>

41 Landfill Site - Reconciliation

	2013	2012
	R	R
Non Current Provision for LandFill	5 031 690.22	2 247 942
Less Short term Portion of Land Fill Provision	-	-
Correction error	-	1 964 189
	<u>5 031 690.22</u>	<u>4 212 131.00</u>

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 5.03 million to restore the sites at the end of its useful lifes. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2013

42 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant, and equipment

Recoverable amounts of property, plant and equipment

Provision for rehabilitation of landfill sites (number of years, amount of cash flows)

Debtors Allowance

Impairment of assets

Provision for long-term service award

Other

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Provisions

Other

43 *Non-Compliance with Chapter 11 of the Municipal Finance Management Act*

No known matters existed at reporting date.